

Under P.A. 91-541, digital printing equipment can qualify for the Graphic Arts Machinery and Equipment exemption from sales tax. (This is a GIL).

August 28, 2000

Dear Xxxxx:

This letter is in response to your letter dated June 22, 2000. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120 subsections (b) and (c), which can be found at <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

In your letter, you have stated and made inquiry as follows:

We would appreciate your assistance in addressing the taxability of high speed digital color copiers used to print custom graphic media for sales to customers. The items in question are the Canon CLC 800 and 1000 high speed digital color laser copier/printer.

#### Facts

Company A is a custom graphic arts company that specializes in high-speed digital color printing. Company A uses Canon CLC 800 and CLC 1000 color copier/printer which are capable of producing 32 pages of 8 ½ x 11 glossies per minute. Company A can imprint computer file images onto glossy paper producing a variety of color documents such as marketing books, TV guides and clothing store catalogs. The Canon CLC 800 and 1000 are high-end digital copiers which are reconfigured for electronic printing. The reconfiguration entails adding additional memory, RIP (rasterized image processor) and wiring to connect the copier/printer to a computer system. A raster image processor (RIP) is a hardware or combination hardware/software product that converts images described in the form of vector statements into rasterized images or bitmaps. For example, laser printers use RIPs to convert images that arrive in vector form (for example, text in a specified font) into rasterized and therefore printable form. The RIP is the key component which allows the computers to communicate directly with the digital copiers enabling the transfer of computer files for printing. The images will be stored in the digital copiers' memory waiting to be printed.

The computer file images are comprised of a combination of text and pictures that are supplied by the customer to Company A. The customer will request the quantity and paper stock they desire the images to be produced on. Company A will enhance the image on their computers to make color corrections to ensure a quality product

produced for the customer. Once the image is ready for processing, the high-speed digital color copiers will manufacture the desired number of items for the customer. In printing the product, no image is placed on the glass. Instead an electronic image is sent over a network to the printer/copier.

#### Issue

- Would the purchase or lease of high speed digital printer/copier used as discussed above qualify as manufacturing equipment and be exempt from sales and use tax?

#### Conclusion and Discussion of Applicable Law

Please confirm our conclusion to the issue described based on the facts given and the applicable law. Please reference your sources if you disagree with our conclusions or if you are bringing additional matters to our attention that we may have failed to address.

- The purchase or lease of high speed digital color laser printer/copier would qualify as graphic arts production equipment. Illinois Section 105/3-5(5) and 110/3-5(5) exempts from sales and use tax the purchase of graphic arts machinery, equipment and related repair and replacement parts. Illinois Section 110/3-30 further defines 'graphic arts production' means 'printing, including ink jet printing, by one or more of the processes described in Groups 323110 through 323122 of Subsector 323, Groups 511110 through 511199 of Subsector 511, and Group 512230 of Subsector 512 of the North American Industry Classification System (NAICS) published by the U.S. Office of Management and Budget, 1997 edition.' NAICS classifies digital printing under code 323115. Since digital printing qualifies as graphic arts production per Section 110/3-30, the digital color laser printer/copier would qualify as exempt machinery used in manufacturing.

Please confirm that this equipment would be exempt from the use tax under this regulation. We appreciate your assistance in determining the taxability of the item discussed above. If you have any questions, please call me at #####.

For your information, we have enclosed a copy of 86 Ill. Adm. Code 130.325, which are the Department's regulations for the Graphic Arts Machinery and Equipment exemption. The Graphic Arts Machinery and Equipment exemption extends to machinery and equipment that is used primarily in graphic arts production. Prior to recent legislation, "graphic arts production" meant printing by one or more of the common processes or graphic arts production services as those processes and services are defined in Major Group 27 of the U.S. Standard Industrial Classification Manual. Generally digital imaging and printing systems did not qualify for the exemption unless used in the production of manifold business forms or greeting cards.

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However, Public Act 91-541 was signed into law on August 13, 1999. This measure amended the definition of "graphic arts production" to mean "printing, including ink jet printing, by one or more of the processes described in Groups 323110 through 323122 of Subsector 323, Groups 511110 through 511199 of Subsector 511, and Group 512230 of Subsector 512 of the North American Industry Classification System published by the U.S. Office of Management and Budget, 1997 edition. Graphic arts production does not include (i) the transfer of images onto paper or other tangible personal property by means of photocopying or (ii) final printed products in electronic or audio form, including the production of software or audio-books." Groups 323114 and 323115 of the North American Industry Classification System include quick printing and digital printing processes. Equipment such as the digital printers you describe can qualify for the Graphic Arts Machinery and Equipment exemption under the new legislation.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Martha P. Mote  
Associate Counsel

MPM:msk  
Enc.